



## MORNING BRIEFING

April 25, 2017

### Minimalist Millennials

See the [collection](#) of the individual charts linked below.

(1) Millennials are different than Baby Boomers. (2) Not rushing to get married. (3) Baby dearth. (4) Turn-ons and turn-offs. (5) Still renting. (6) Our in-house Millennial. (7) Cool experiences. (8) Lifestyles-of-the-rich-and-famous is so yesterday. (9) Cars are just cars. (10) Habitats for Hobbits. (11) An alternative way to be an adult.

**US Demography I: By the Numbers.** During most of my career, my demographic work focused on the impact of the Baby Boom cohort on the economy. However, in recent years, the Millennials have become just as important. They are the generation that is replacing the Baby Boomers as they retire. I reckon that the Millennials were born between 1981 and 1996, making them 20 to 35 years old during 2016 ([Fig. 1](#)). I figure they are mostly out of college and have entered the labor force, and are mostly working.

What they aren't doing is rushing to get married and have kids. In the US, the median age at first marriage during 2015 was 29.2 years old for males, up from 23.5 years old during 1975. For women, this matrimonial age rose from 21.1 years old to 27.1 years old over this period ([Fig. 2](#)). Data compiled by the National Center for Health Statistics show that the average age of first-time mothers rose from 24.9 years old in 2000 to 26.3 years old in 2014. No wonder that the general fertility rate has been flat-lining at a record low since the mid-1970s ([Fig. 3](#)).

These demographic trends are likely to weigh on economic growth, though much depends on whether and when more Millennials might decide to marry, have kids, and buy houses. My hunch is that more will once they turn 30 years old. The oldest of them started to do so in 2011 (at the same time as the oldest Baby Boomers turned 65 years old), and will continue to do so until 2026 when the youngest Millennials will turn 30.

I can understand why the Millennials might be less inclined to be rearing a family. When I was growing up as a Baby Boomer, we tended to marry our high-school or college sweethearts. That was likely to be as good as it gets. Now thanks to the Internet and social media tools such as Tinder and Cupid, young adults can hook up until they get bored and move on to another "friend with benefits." So couples have to fall truly in love and want to have kids to get married these days. Raising kids is certainly much more expensive than in the past given record-high home prices and soaring college tuition costs.

To monitor the Millennials' demographic impact on the economy, Melissa and I track the quarterly household formations report compiled by the Census Bureau. It also shows whether the new households are renters or homeowners. Needless to say, the decision to rent or to buy a home is also affected by current and expected economic conditions. When people are doing well and are optimistic about the future, home buying is likely to be more appealing than during bad times, when confidence is depressed and renting seems like a safer option. The level of mortgage interest rates and the prices of homes, as well as the expected appreciation of those prices, are further considerations in the rent-versus-own decision.

The data, which is available since the end of 1956, show that household formation was brisk during the mid-2000s ([Fig. 4](#)). Most of the new households bought homes rather than rented them ([Fig. 5](#)). When the housing bubble burst starting in 2007, and as mortgages became much harder to obtain, household formation slowed dramatically through mid-2014, with the number of homeowners declining, while renting became increasingly popular. By the second half of 2014, household formation rebounded, though renting continued significantly to outpace owning. The percentage of households renting rather than owning a housing unit remained high at 36.3% during 2016, up from a record low of 30.8% during 2004 ([Fig. 6](#)).

Anecdotal evidence suggests that many Millennials prefer to rent in urban areas rather than to own a home in the suburbs. In addition, the Millennials don't view homes as a safe asset after seeing the housing bubble burst. Those who would like to buy a home are facing much tougher lending standards following the financial crisis of 2008. So it's no wonder that many of the Millennials, along with other potential first-time homebuyers, aren't buying homes but are renting instead.

The percentage of homeownership among all households dropped from a record high of 69.2% during Q4-2004 to 62.9% during Q2-2016, the lowest since the start of the data in Q1-1965 ([Fig. 7](#)). Ownership rates have dropped for all age groups, but the biggest declines since their 2004 peaks have been for those under 35 years old (down from 43.6% to 34.1%) and those between 35-44 years old (down from 70.0% to 58.3%) ([Fig. 8](#)).

Contributing to the renter boom is the growing number of people who are single rather than married. Since the start of 2014, for the first time ever in the US, the number of singles in the working-age population—which includes everyone 16 years of age or older—equaled the number of married people ([Fig. 9](#)). That's up from 42% 30 years ago to 50% now ([Fig. 10](#)). At the end of 2016, 30.5% of the working-age population was never married (up from 22.1% in 1976) and 19.5% was divorced, separated, or widowed (up from 15.3% in 1976) ([Fig. 11](#) and [Fig. 12](#)). The former includes lots of Millennials, while the latter includes lots of Baby Boomers. There are more singles because Millennials are getting married later in life, while the Baby Boomers are living longer and losing their spouses along the way for one reason or another.

**US Demography II: Alternative Adulthood.** Melissa happens to be our in-house Millennial. She is a senior member of this cohort, and has been staying current on her peers. She reports that while many Millennials still desire the American dream of a family in their own house, lots of them also have embraced a minimalist mindset. It's not that they don't want to own anything, but rather want only stuff that they actually need—no frills and trophies for them! Many of them would rather enjoy a cool experience that they can brag about on Instagram than buy the newest hot sneakers or handbag.

Many Millennials were children during the 1980s and 1990s, growing up with materialistic parents who indulged in flashy lifestyles. When they were in their teens and early twenties, many watched their parents struggle financially following the Great Recession. They don't want to make the same mistakes that their parents did. Besides, many Millennials are saddled with student loans and have struggled to find good-paying entry-level jobs after graduating from school.

Living a modest lifestyle takes less effort and is more appealing to lots of Millennials than the lavish lifestyles of the rich and famous. The widespread view is that the Millennials have delayed adulthood. That's probably wrong. Instead, many of them simply are embracing their own version of what it takes to be a financially responsible adult. Consider the following:

(1) *Prius over Porsche.* “Millennials have produced plenty of anxiety for automakers. As the stereotype goes, entitled young adults would prefer to hail an Uber, take public transportation or even hitch a ride

from Mom instead of driving; an unusually large number of young millennials haven't even bothered to get a driver's license," according to the caricature laid out by a 12/23/16 *LA Times* [article](#).

Recent data, however, present a more nuanced view of Millennials' attitudes toward cars. Many of them aren't rejecting car ownership, but rather delaying it. In a study last year, JD Power's Power information network reported that the share of Millennials in the new car market jumped to 28% from just 17% in 2010. Likewise, a 2015 Cars.com [study](#) found that 35% of Millennials plan to purchase a vehicle in the next 12 months compared to 25% of total US adults.

One theory for why Millennials put off car buying is that cars don't represent an "aspirational" purchase as for many of their parents. The key to Millennials' purchase satisfaction is value for money, observed the press release for the JD Power's [study](#). Instead of viewing a fancy luxury car as a status symbol as generations before them had, many Millennials have more basic aspirations.

"Millennials tend to view cars as more of a practical need than an emotional want," noted Cars.com. Many millennials will buy a good value car just when it becomes necessary to own one. According to a 32-year-old San Diego real estate agent quoted in the *LA Times* article: "I see a lot of people my age have affordable, reliable cars. I bought my Prius because I wanted to get great gas mileage."

Another nationwide [study](#), commissioned by the personal finance blog NerdWallet last year, showed that young adults think that the costs of owning a car, including maintenance and insurance, are a drag. But they don't regret buying a car after the fact. However, they are taking on less auto debt as their student loan debt has risen over the years.

(2) *Cottage over mansion*. The tiny house movement is particularly popular among those under the age of 35 and Baby Boomers, observed a 2016 *USA Today* [article](#), which highlighted an informal social media survey that showed nearly 40% of respondents had lived in dwellings less than 500 square feet in size at some point. While there were just an estimated 10,000 tiny houses in the US last year, the mini-movement itself speaks to the Millennials' preference toward minimalism.

"Those taking part in the budding movement often embrace the lifestyle because it allows them to leave a smaller environmental footprint, live mortgage free, and because the houses are often on wheels, to pick up and pursue a new career or passion without worrying about having to sell or find a new home," explained the article, which was titled "Recession-scarred Millennials fuel growing interest in tiny homes."

(3) *Experiences over stuff*. This month, the US Census Bureau released a [report](#) titled *The Changing Economics and Demographics of Young Adulthood: 1975-2016*. Most of the statistics included within the report aren't new news. Nevertheless, the report's conclusion supports the case that many young adults are making responsible adult-like decisions; they just aren't embracing the traditional notions of adulthood held by previous generations.

The report concludes: "That young people wait to settle down and start families tells us about their behavior, but not how they feel about their experiences. More than half of all Americans [today] believe that getting married and having children are not important to becoming an adult. In contrast, more than 9 in 10 Americans believe that finishing school and being gainfully employed are important milestones of adulthood." Most Americans today believe that financial security should come well before marriage.

The report continued: "The complexity of the pathways to adulthood extends to economic conditions, as well. Today, more young people work full-time and have a college degree than their peers did in 1975, but fewer own their home. Whereas young women have made economic gains, some young men are

falling behind ... Taken together, the changing demographic and economic experiences of young adults reveal a period of adulthood that has grown more complex since 1975, a period of changing roles and new transitions as young people redefine what it means to become adults.”

In our view, as notions of what it means to be an adult have expanded to include more variations, many young adults have chosen to live more simply, owning less stuff and shoring up their finances by focusing on value.

## CALENDARS

**US. Tues:** Consumer Confidence Index 123.6, Richmond Fed Manufacturing Index 16.0, New Home Sales 584k, S&P Corelogic Case-Shiller 20-City HPI 0.6%, FHFA HPI 0.4%. **Wed:** MBA Mortgage Applications, EIA Petroleum Status. (Bloomberg estimates)

**Global. Tues:** None. **Wed:** Canada Retail Sales Total and Ex Autos 0.2%/-0.3%, Australia CPI 2.2% y/y, Japan Small Business Confidence 49.4, Lowe. (DailyFX estimates)

## STRATEGY INDICATORS

**YRI Weekly Leading Index ([link](#)):** Our Weekly Leading Index (WLI)—a good coincident indicator that can confirm or raise doubts about stock market swings—recovered 2.9% during the three weeks through April 15 after retreating three of the prior four weeks by a total of 3.1%. It’s now only 0.3% below its record high recorded seven weeks ago. Our WLI is the average of our Boom-Bust Barometer (BBB) and Bloomberg’s Weekly Consumer Comfort Index (WCCI). Our BBB rebounded 5.3% the past three weeks, to within 0.7% of its record high, after declining three of the prior four weeks by 5.8%. Jobless claims sank for the third week to 243,000 (4-wa) after rising the prior four weeks from 239,750 (lowest since 1973) to 254,500. The CRB raw industrials spot price index—another BBB component—is moving lower after being stalled around recent highs. Meanwhile, the WCCI slipped 2.2% after rising six of the prior seven weeks by 6.3%.

**S&P 500/400/600 Forward Earnings ([link](#)):** Forward earnings rose last week to record highs for LargeCap and MidCap. SmallCap’s rose too, but remains 0.1% below its early February record. The yearly change in forward earnings is up from six-year lows in early 2016 for all three indexes as y/y comparisons have eased. In the latest week, LargeCap’s forward earnings edged down to 9.1% y/y from a 63-month high of 9.2%, which compares to a six-year low of -1.8% in October 2015; MidCap’s rose to 11.3% from 11.1%, which compares to a 30-month high of 11.5% in late March and a six-year low of -1.3% in December 2015; and SmallCap’s edged down to 12.1% from 12.2%, which compares to a 34-month high of 12.8% in mid-March and a six-year low of 0.3% in December 2015. Growth rates now expected for 2017 and 2018 before the impact of tax-rate changes: LargeCap 10.9% and 12.1%, MidCap 10.6% and 13.3%, and SmallCap 9.1% and 20.0%.

**S&P 500/400/600 Forward Valuation ([link](#)):** Valuations rose across the board last week, but remain below their multi-year highs in early March. P/Es have melted up since the election, but the ‘E’ still remains low as analysts await legislative changes to the tax rate and its impact on corporate earnings. LargeCap’s forward P/E rose to 17.3 from an 11-week low of 17.2, but remains near the 13-year high of 17.8 in early March. That’s up from a 15-month low of 14.9 in January 2016 and the post-Lehman-meltdown P/E of 9.3 in October 2008, but remains well below the record high of 25.7 in July 1999. MidCap’s forward P/E rose to 18.3 from a 22-week low of 18.0; that compares to a 15-year high of 19.2 in late February and the record high of 20.6 in January 2002, but is up from a three-year low of 15.0 in January 2016. SmallCap’s jumped to 19.5 from a 22-week low of 19.1; that’s up from a three-year low of 15.5 in February 2016 and compares to a 15-year high of 20.5 in early December, when Energy’s

earnings were depressed, and a record high of 20.9 in April 2002. Looking at their forward price/sales ratios since data became available in 2004, valuations are similarly elevated for the three indexes: LargeCap's P/S of 1.88 and MidCap's 1.28 are close to their recent record highs of 1.94 and 1.37, while SmallCap's 1.00 is down from 1.15 in July 2015 and a record high of 1.17 in November 2013.

**S&P 500 Sectors Quarterly Earnings Outlook** ([link](#)): Q2 earnings estimate revisions activity tilted to the downside as expected last week despite the emergence of yet another positive earnings surprise hook for Q1. The Q2 consensus rose w/w for three of the 11 S&P 500 sectors, was steady for three, and fell for five. Real Estate's Q2 forecast rose 0.8% w/w, followed by increases for Materials (0.6%) and Health Care (0.1). Energy (-2.4) and Tech (-0.8) had the biggest w/w percentage decline in their Q2 forecasts. The S&P 500's Q2-2017 EPS forecast fell 8 cents w/w to \$31.97, but is down just 0.3% from \$32.04 at the end of Q1. That represents a forecasted pro forma earnings gain for Q2-2017 of 9.7% y/y, down from Q1's blended 11.2%, which is the strongest growth since Q3-2011 owing mostly to easier comps for Energy. The Q2-2017 forecast is down from 10.0% a week earlier and 11.9% at the end of Q4. Since the end of Q1, Q2 estimates are lower for six sectors, higher for three, and flat for two. Materials' Q2 forecast has risen 0.8%, followed by 0.1% gains for Consumer Staples and Industrials. Energy has dropped 2.4% for the worst decline and Telecom is down 1.6%. The S&P 500's Q2-2017 forecasted earnings gain of 9.7% y/y would be its fourth straight gain after four declines. Ten of the 11 sectors are expected to record positive y/y earnings growth in Q2-2017, but only three are expected to beat the S&P 500's y/y earnings gain of 9.7%. That's because analysts expect Energy to report a large profit jump in Q2 relative to very low earnings a year ago. Still, that's better than the 7/11 sectors that rose y/y on a blended basis during Q1-2017. The latest forecasted Q2-2017 earnings growth rates vs their blended Q1-2017 growth rates: Energy (806.6% in Q2 versus a return to a profit in Q1), Tech (10.7% vs. 15.7%), Financials (10.3, 19.9), S&P 500 (9.7, 11.2), Materials (9.6, 14.9), Consumer Staples (4.9, 2.5), Consumer Discretionary (3.9, -1.9), Real Estate (3.7, 1.7), Health Care (3.1, 3.7), Telecom (3.0, -4.6), Industrials (1.3, -2.7), and Utilities (-1.4, -0.7).

## US ECONOMIC INDICATORS

**Regional M-PMIs** ([link](#)): Three Fed districts so far have reported on manufacturing activity for April—New York, Philadelphia, and Dallas—and show growth in the sector slowed for the second month from February's fast pace. We average the composite, orders, and employment measures as data become available. The composite index slipped to 14.7 this month from 22.0 last month and 28.8 in February—which was the highest reading since the end of 2004. The Philadelphia (to 22.0 from 43.3), New York (5.2 from 18.7), and Dallas (16.8 from 24.5) measures all slowed the past two months after improving dramatically in February, though the latter's was little changed in April. The new orders gauge slipped to 15.3 this month from 23.1 last month, which was the best reading since summer 2006. New orders in both the Philadelphia (27.4) and New York (7.0) regions grew at the slowest pace in four months, though Philly's held near March's cyclical high. Meanwhile, Dallas' orders (11.5 from 9.5) expanded at a slightly faster pace than March. The employment measure improved for the fourth month from -4.0 in December to 14.1 this month—the best hiring pace since April 2012. Manufacturers in the Philadelphia (19.9) and New York (13.9) regions are showing a pickup in hiring, adding to payrolls at the fastest pace since May 2011 and March 2015, respectively. Dallas' gauge (8.5) shows a steady pace of hiring, holding around February's 14-month high of 9.6.

## GLOBAL ECONOMIC INDICATORS

**Germany Ifo Business Climate Index** ([link](#)): German businesses confidence was a surprise on the upside once again this month. The Ifo business climate index advanced for the third month from 109.9 in January to 112.9 this month—the highest since July 2011. Businesses assessment of the current situation continues to improve, with the measure advancing for the eighth straight month from 113.2 in

August to 121.1 in April, also the best reading since July 2011. The expectations component barely budged at 105.2, up from 103.3 at the start of the year. Ifo's expectations component correlates closely with German factory orders and production; the overall index tracks exports more closely. Recent Ifo data continues to support the robust rebound from last summer's slowdown.

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